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This single chapter on economic trends and outlook is excerpted from the 2004 (September 2004 Update) Country Commercial Guide for Jordan. The full text of the report is also available on this website.

## **CHAPTER 2. ECONOMIC TRENDS AND OUTLOOK**

### **Major Trends and Outlook**

On the heels of accession to the WTO in 2000, Jordan entered into a Free Trade Agreement with the United States in December 2001. This agreement is the first with an Arab country. It represents U.S. support for Jordan's economic reforms and peace building in the region. The agreement includes the gradual phasing out of import duties over a ten-year period ending in January 2010, leading to the establishment of a free trade area, applicable to both goods and services. Currently, 83% of all tariffs have been eliminated in all major product categories. This percentage is scheduled to increase to 95% by January 2005. The EU-Jordan Association Agreement, creating a free trade area between Jordan and the EU within 12 years, came into force in May 2002. The U.S.- Jordan Bilateral Investment Treaty, which outlines general assurances to investors, came into force in June 2003.

The Jordanian Government's commitment to fiscal consolidation, sound macroeconomic management, and international support has contributed to improving financial stability and private sector confidence in Jordan. Despite heightened regional unrest, including the war and ongoing violence in Iraq, Jordan's resilient economy grew at a respectable 3.2% in 2003. Over the last four years, Jordan's economic growth rates in real terms have averaged 4.1%. Combined with a falling population growth rate (currently 2.8%), these figures suggest an increasing average standard of living for Jordanians. The IMF expects Jordan's GDP to begin to grow by 6% per year beginning in 2006. Unemployment, however, remains high in Jordan at approximately 15% owing to the rapid growth of the labor force and an increased labor participation rate. There is also a large pool of under-utilized labor in Jordan.

Regional turmoil throughout 2003 and into 2004 weakened Jordan's economy by decreasing tourism receipts and Jordanian exports to Iraq, although both sectors are rebounding. It has also led to a drop in foreign private investment in Jordan. Burdensome red tape, and a problematic but improving legal environment, are ongoing challenges facing investors in Jordan.

Foreign exchange reserves were \$4.7 billion in at the end of 2003, equal to 9.5 months of imports, compared to almost \$2 billion in 1999, or equal to 4.8 months of imports. Foreign exchange reserves are expected to increase to \$5.5 billion by December 2004 according to the IMF. The remittances of Jordanian expatriates, primarily from the United States and Saudi Arabia, totaled \$2.2 billion in 2003 and represent a major source of foreign exchange for Jordan. The U.S. Dollar/Jordanian Dinar exchange rate has been fixed at \$1.41/JD since 1995.

The government has made modest progress in its privatization program, begun in 1998. The government sold its remaining 14.3% stake of the Jordan Cement Factories Company to the Social Security Corporation in February 2002. 10.5% of shares in Jordan Telecom were sold by an Initial Public Offering (IPO) in October 2002. In October 2003, the government sold half of its 52% stake in the Arab Potash

Company to a strategic Canadian partner. In addition, the government is moving ahead on privatization in the electricity sector, and continues to seek a strategic foreign partner to buy up to a 49 percent stake of Royal Jordanian (RJ) Airline's operating division. RJ's engine overhaul facility and aircraft maintenance division are also for sale. Royal Jordanian Airlines, the power sector, and potentially the postal sector are the major privatizations the government hopes to conclude in the near future.

**Principal Growth Sectors**

Health technology, pharmaceuticals, telecommunications, information technology, environmental technology, security and safety equipment, hospitality products and services, energy, and mining are likely sectors for growth. Construction, textiles, insurance, and financial services will also be important components of the Jordanian economy.

The Jordanian economy greatly relies on its service sector, which constituted 70% of Jordan's GDP in 2003. The manufacturing sector employs over 11% of Jordan's labor force, contributes 17% to GDP, and constitutes 61% of Jordanian exports. Industrial estates, established by the government to attract industry through the provision of incentives such as tax and fee exemptions, continue to grow.

**Industrial origin of GDP (2003):**

Finance, Insurance, Real Estate and Business Services	20.54%
Producers of Government Services	19.11%
Transport and Communications	17.30%
Manufacturing	15.88%
Trade, Restaurants and Hotels	11.01%
Social and Personal Services	4.73%
Construction	4.42%
Mining and Quarrying	3.11%
Electricity and Water	2.54%
Agriculture	2.42%
Producers of Private Non-Profit Services for Households	1.04%
Domestic Household Services	0.21%

Source: Central Bank of Jordan

After a prolonged dry spell in the tourism industry brought on by regional instability, the sector is finally beginning to see a resumption of growth. An increase in Arab tourists and in business travelers arriving after the end of the war in Iraq somewhat offset a dramatic drop in Western tourist travel during the period 2001-2003. Even the Western tourist traffic is now beginning to rebound, with Western arrivals increasing over 60% in the first quarter of 2004. The Red Sea port of Aqaba is expected to continue to develop as a tourist destination, with four new hotels currently under construction and a number of tour and leisure projects in the pipeline. Several new resort hotels along the Dead Sea are also under development.

Pharmaceuticals made up the third largest export category in 2002, with around \$200 million in total exports. The Jordanian industry produces mainly branded generics as well as some patented drugs

produced under license. While the Arab market accounts for most of the sales, Jordanian pharmaceutical companies have also penetrated the U.S. and European markets. In light of its accession to the WTO, Jordan must continue to remain attentive to intellectual property rights concerns, particularly regarding non-licensed pharmaceuticals.

Jordan's telecom sector will see significant changes over the next few years. Jordan Telecom (JT), which currently enjoys a monopoly in fixed-line communications, will lose its exclusivity in January 2005. The mobile telephony sector is currently dominated by FastLink, a subsidiary of the Kuwaiti MTC, but it will face increased competition from MobileCom, a JT-owned minority player; XPress, a new market entrant deploying a high-end trunking service; and Umniah Telecommunications Co., a new full-service mobile licensee planning to build out a network by mid-2005.

### **Government's Role in the Economy**

Government expenditure accounted for about 36.4% of GDP in 2003, and 34.5% of GDP in 2002.

Government expenditure in the 2004 budget is projected at 34.3% of GDP. The government remains the single largest employer in Jordan. While the government is determined to move forward on privatization and deregulation, unnecessary red tape and inefficiencies remain a concern for businesses and investors in Jordan. The tariff-free Aqaba Special Economic Zone opened in May 2001, and facilitates investment in Jordan by greatly reducing bureaucratic barriers and delays.

### **Balance of Payments**

Jordan's current account surplus jumped to 11.1% of GDP in 2003, up from 4.4% of GDP in 2002 and zero in 2001. An increase in exports and in the inflow of remittances from Jordanians working abroad was offset by an increase in imports. The trade deficit was 25.4% of GDP in 2003, slightly higher than the 23.9% of GDP in 2002.

### **Infrastructure**

Road connections with Syria, Saudi Arabia and Iraq remain good though underdeveloped by western standards. Transportation links with Israel and the Palestinian Authority are hampered by lengthy border checks and transport restrictions. Modern, efficient cargo handling facilities exist at the port of Aqaba, though backlogs and delays are common. Jordan's two international airports, Queen Alia near Amman and the Aqaba Airport, provide excellent facilities for cargo traffic.

Electricity blackouts and brownouts occasionally occur in the summer. One of the most water-poor countries in the world, Jordan faces a water deficit of some 561 million cubic meters of water per year.

Communications have improved, with wide cellular telephone coverage and easier access to pay phones. As the result of a law reforming the telecommunications sector, an independent regulatory telecommunications agency has been established. However, the high cost and low quality of international fax and telephone communications coming into the country remains problematic. Access to the Internet and electronic mail is available throughout Jordan, and ADSL lines are widely available for business and residential use.

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U.S. exporters seeking further recommendations for trade promotion opportunities in Jordan and country-specific commercial information may also wish to visit the website of the U.S. Commercial Service in Jordan at [www.buyusa.gov/jordan](http://www.buyusa.gov/jordan)

Travelers may wish to obtain the most recent travel advisory from the U.S. Department of State at [www.state.gov](http://www.state.gov)

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